

Message Text

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SUBJ: PUBLIC SECTOR TRADING FIRMS GIVEN ACCESS TO
- "FREE" CURRENCY MARKET FOR FIRST TIME

1. APRIL 4 CAIRO PRESS REPORTED THAT GOE HIGHER COUNCIL FOR FOREIGN TRADE, MEETING UNDER CHAIRMANSHIP OF MINISTER OF TRADE, HAD TAKEN DECISION EFFECT OF WHICH WILL APPARENTLY BE TO PERMIT PUBLIC SECTOR TRADING COMPANIES TO HAVE ACCESS TO SO-CALLED "FREE MARKET" IN FOREIGN CURRENCY. THESE FIRMS WILL THUS BE ABLE TO USE HARD CURRENCY PURCHASED WITH EGYPTIAN CURRENCY FROM OWNERS OF FREELY-TRANSFERABLE FOREIGN CURRENCY ACCOUNTS, TO PAY FOR GOODS THEY IMPORT FOR SALE THROUGH GOE OUTLETS.

2. LAW 97 OF 1976 SPECIFICALLY AUTHORIZED CARRYING OUT OF "ANY FOREIGN EXCHANGE OPERATION" BY OWNERS OF FOREIGN CURRENCY NOT DERIVING FROM TOURISM OR THE EXPORT OF GOODS, SO LONG AS SUCH TRANSACTIONS WERE EFFECTED THROUGH BANKS AUTHORIZED TO DEAL IN FOREIGN CURRENCY. GOVERNMENTAL AGENCIES AND PUBLIC SECTOR COMPANIES WERE, HOWEVER, EXCEPTED FROM THE PROVISIONS OF THIS IMPORTANT PIECE OF "LIBERALIZING" LEGISLATION. PUBLIC SECTOR TRADING
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COMPANIES WERE THEREFORE RESTRICTED TO OFFICIAL ALLOCATIONS OF FOREIGN CURRENCY OR USE OF FOREIGN EXCHANGE GENERATED BY THEIR OWN ACTIVITIES, IN MEETING THEIR NEEDS FOR HARD CURRENCY. NEW HIGHER COUNCIL FOR FOREIGN TRADE DECISION NOW APPARENTLY PERMITS THEM, LIKE PRIVATE SECTOR IMPORTS, TO PURCHASE HARD CURRENCY DIRECTLY FOR POUNDS AT THE BEST RATE THEY CAN OBTAIN. THIS

WILL PRESUMABLY ENABLE THEM TO IMPORT GREATER QUANTITIES AND VARIETIES OF GOODS TO SELL TO EGYPTIAN MARKET, THUS HELPING ALLEVIATE CURRENT PRICE INCREASES CAUSED IN PART BY SHORT SUPPLY OF SOME GOODS. DECISION ALSO HELPS TO LIMIT DIFFERENCES BETWEEN PUBLIC AND PRIVATE SECTOR TRADING COMPANIES WHICH HAVE BEEN SOURCE OF CONCERN TO MANY PUBLIC SECTOR COMPANIES. IT SHOULD BE NOTED THAT MOST PUBLIC SECTOR COMPANIES ALREADY MUST USE PARALLEL RATE OF EXCHANGE IN OBTAINING EVEN OFFICIALLY ALLOCATED HARD CURRENCY SO NEW PROCEDURES WILL NOT THEMSELVES MEAN HIGHER PRICES FOR CONSUMERS.

3. MINISTERIAL DECREE WILL UNDOUBTEDLY HAVE TO BE ISSUED BEFORE DECISION GOES INTO EFFECT. ACCORDING TO OUR PRELIMINARY INFORMATION, PUBLIC SECTOR COMPANIES WILL BE RESTRICTED TO APPROVED BUDGET EXPENDITURES FOR IMPORTS AND WILL HAVE TO HAVE MINFIN APPROVAL FOR ANY SHIFTS.

4. DEMAND BY PUBLIC SECTOR TRADING COMPANIES FOR HARD CURRENCY CAN BE EXPECTED TO DRIVE UP FREE MARKET EXCHANGE RATE OF SUCH CURRENCY IN TERMS OF EGYPTIAN POUNDS. CURRENT FREE MARKET COST OF DOLLARS IS APPROXIMATELY 75 PIASTERS, AS OPPOSED TO PARALLEL RATE OF 70 PIASTERS PER DOLLAR. SPECULATION IS FREE RATE WILL GO TO AT LEAST 80 PIASTERS ONCE DECISION TAKES EFFECT. EILTS

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